

**REPORT OF THE AUDIT OF THE
ESTILL COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2007**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE ESTILL COUNTY FISCAL COURT

June 30, 2007

The Auditor of Public Accounts has completed the audit of the Estill County Fiscal Court for the fiscal year ended June 30, 2007.

We have issued unqualified opinions on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of Estill County, Kentucky. We have also issued an unqualified opinion on Estill County's compliance with requirements applicable to each of its major federal programs: Highway Planning and Construction (CFDA #20.205); Chemical Stockpile Emergency Preparedness Program (CFDA #97.040); Homeland Security Grant Program (CFDA #97.004)

Financial Condition:

The fiscal court had total net assets of \$5,684,898 as of June 30, 2007. The fiscal court had unrestricted net assets of \$375,171 in its governmental activities as of June 30, 2007. The business-type activities had total net assets of \$1,307. The fiscal court had total debt principal as of June 30, 2007 of \$1,539,953 with \$453,205 due within the next year.

Report Comments:

- 2007-1 The Fiscal Court Did Not Properly Approve \$1,107,776 Of Expenditures Relating To The Waterline Extension Project
- 2007-2 The Fiscal Court Did Not Account For Encumbrances And Unpaid Obligations
- 2007-3 The Fiscal Court Did Not Remit Insurance Premium Payments Timely And Incurred \$5,518 In Late Charges
- 2007-4 The Fiscal Court Did Not Approve A Salary Schedule
- 2007-5 The Fiscal Court Lacks Adequate Segregation Of Duties For Occupational Tax Collections
- 2007-6 Federal Grant Monies Totaling \$9,952 Paid To The Fiscal Court's CSEPP Coordinator Are Being Questioned

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities or bonds.

<u>CONTENTS</u>	PAGE
INDEPENDENT AUDITOR’S REPORT	1
ESTILL COUNTY OFFICIALS	3
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS	7
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS.....	10
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	14
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS.....	19
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS.....	23
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS.....	27
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS	31
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS	35
NOTES TO FINANCIAL STATEMENTS	37
BUDGETARY COMPARISON SCHEDULES	53
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION	59
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	62
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	66
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	71
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	72
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	75
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	79
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	83
APPENDIX A:	
CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Wallace Taylor, Estill County Judge/Executive
Members of the Estill County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Estill County, Kentucky, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Estill County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Estill County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Estill County, Kentucky, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The County has not presented the management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Wallace Taylor, Estill County Judge/Executive
Members of the Estill County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Estill County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The combining fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation of the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated September 25, 2008 on our consideration of Estill County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following report comments:

- 2007-1 The Fiscal Court Did Not Properly Approve \$1,107,776 Of Expenditures Relating To The Waterline Extension Project
- 2007-2 The Fiscal Court Did Not Account For Encumbrances And Unpaid Obligations
- 2007-3 The Fiscal Court Did Not Remit Insurance Premium Payments Timely And Incurred \$5,518 In Late Charges
- 2007-4 The Fiscal Court Did Not Approve A Salary Schedule
- 2007-5 The Fiscal Court Lacks Adequate Segregation Of Duties For Occupational Tax Collections
- 2007-6 Federal Grant Monies Totaling \$9,952 Paid To The Fiscal Court's CSEPP Coordinator Are Being Questioned

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

September 25, 2008

ESTILL COUNTY OFFICIALS

For The Year Ended June 30, 2007

Fiscal Court Members:

Wallace Taylor	County Judge/Executive
Greg Hall	Magistrate
Darrell Johnson	Magistrate
Gerald Rader	Magistrate

Other Elected Officials:

Rodney Davis	County Attorney
Jim Morris	Jailer
Sherry Fox	County Clerk
Charlene Baker	Circuit Court Clerk
Gary Freeman	Sheriff
Debra Dunaway Barnes	Property Valuation Administrator
Tony Murphy	Coroner

Appointed Personnel:

Teresa Sparks	Deputy County Judge/Executive
Laura Ann Rogers	County Treasurer
Laura Ann Rogers	Occupational Tax Collector
Christine Brandenburg	Finance Officer

THIS PAGE LEFT BLANK INTENTIONALLY

ESTILL COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2007

ESTILL COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2007

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 375,171	\$ 1,307	\$ 376,478
Total Current Assets	375,171	1,307	376,478
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Construction In Progress	2,123,210		2,123,210
Land and Land Improvements	660,000		660,000
Buildings	1,119,884		1,119,884
Equipment	1,272,449		1,272,449
Vehicles	719,709		719,709
Infrastructure	953,121		953,121
Total Noncurrent Assets	6,848,373		6,848,373
Total Assets	7,223,544	1,307	7,224,851
LIABILITIES			
Current Liabilities:			
Revenue Bonds	8,735		8,735
Financing Obligations	444,470		444,470
Total Current Liabilities	453,205		453,205
Noncurrent Liabilities:			
Revenue Bonds	78,788		78,788
Financing Obligations	1,007,960		1,007,960
Total Noncurrent Liabilities	1,086,748		1,086,748
Total Liabilities	1,539,953		1,539,953
NET ASSETS			
Invested in Capital Assets,			
Net of Related Debt	\$ 5,308,420	\$	\$ 5,308,420
Unrestricted	375,171	1,307	376,478
Total Net Assets	\$ 5,683,591	\$ 1,307	\$ 5,684,898

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

ESTILL COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2007

ESTILL COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

		Program Revenues Received			
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
Governmental Activities:					
General Government	\$ 1,412,525	\$ 222,136	\$ 76,668	\$ 39,648	
Protection to Persons and Property	1,102,765	93,291	117,882	238,303	
General Health and Sanitation	86,752				
Social Services	194,916				
Recreation and Culture	5,242				
Roads	1,024,036	650,000	1,014,160		
Debt Service	170,021				
Capital Projects	22,547	981		2,256,749	
Total Governmental Activities	4,018,804	966,408	1,208,710	2,534,700	
Business-type Activities:					
Jail Canteen	1,875	1,943			
Total Business-type Activities	1,875	1,943			
Total Primary Government	\$ 4,020,679	\$ 968,351	\$ 1,208,710	\$ 2,534,700	

General Revenues:

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Other Taxes

Excess Fees

In Lieu Tax Payments

Licenses and Fees

Miscellaneous Revenues

Accrued Interest Received

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

ESTILL COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2007
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (1,074,073)	\$	\$ (1,074,073)
(653,289)		(653,289)
(86,752)		(86,752)
(194,916)		(194,916)
(5,242)		(5,242)
640,124		640,124
(170,021)		(170,021)
2,235,183		2,235,183
691,014		691,014
	68	68
	68	68
691,014	68	691,082
237,842		237,842
1,671		1,671
65,039		65,039
850,391		850,391
47,892		47,892
13,896		13,896
13,080		13,080
540,522		540,522
11,228		11,228
1,781,561		1,781,561
2,472,575	68	2,472,643
3,211,016	1,239	3,212,255
\$ 5,683,591	\$ 1,307	\$ 5,684,898

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

ESTILL COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2007

ESTILL COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2007

	General Fund	Road Fund	Jail Fund	State Grants Fund
ASSETS				
Cash and Cash Equivalents	\$ 30,520	\$ 29,938	\$ 484	\$ 80,780
Total Assets	<u>30,520</u>	<u>29,938</u>	<u>484</u>	<u>80,780</u>
LIABILITIES				
Promissory Note	<u>157,950</u>			<u>130,000</u>
Total Liabilities	<u>157,950</u>			<u>130,000</u>
FUND BALANCES				
Reserved for:				
Encumbrances	24,763	66,561	2,128	27,276
Unreserved:				
General Fund	(152,193)			
Special Revenue Funds		(36,623)	(1,644)	(76,496)
Total Fund Balances	<u>(127,430)</u>	<u>29,938</u>	<u>484</u>	<u>(49,220)</u>
Total Liabilities and Fund Balances	<u>\$ 30,520</u>	<u>\$ 29,938</u>	<u>\$ 484</u>	<u>\$ 80,780</u>

The accompanying notes are an integral part of the financial statements.

ESTILL COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2007
(Continued)

CSEPP Fund	911 Fees/ CMRS Fund	Non- Major Funds	Total Governmental Funds
\$ 171,928	\$ 39,286	\$ 22,235	\$ 375,171
171,928	39,286	22,235	375,171
			287,950
			287,950
119			120,847
			(152,193)
171,809	39,286	22,235	118,567
171,928	39,286	22,235	87,221
\$ 171,928	\$ 39,286	\$ 22,235	\$ 375,171

Reconciliation to Statement of Net Assets:

Total Fund Balances	\$ 87,221
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	8,767,972
Accumulated Depreciation	(1,919,599)
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Financing Obligations	(1,164,480)
Revenue Bonds	(87,523)
Net Assets Of Governmental Activities	\$ 5,683,591

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

ESTILL COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

ESTILL COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

	General	Road	Jail	State Grants
	Fund	Fund	Fund	Fund
REVENUES				
Taxes	\$ 1,118,456	\$	\$	\$ 36,487
In Lieu Tax Payments	6,488	7,408		
Excess Fees	47,892			
Licenses and Permits	13,080			
Intergovernmental	76,668	1,014,160	117,882	2,256,749
Charges for Services	222,136	650,000	6,964	981
Miscellaneous	352,450	123,487	4,605	48,970
Interest	10,919	197	29	
Total Revenues	1,848,089	1,795,252	129,480	2,343,187
EXPENDITURES				
General Government	573,821			
Protection to Persons and Property	365,806		434,954	288,790
General Health and Sanitation	58,921			1,322,002
Social Services	179,316			14,000
Recreation and Culture	750			
Roads		1,615,847		
Debt Service	37,083	118,914	14,024	
Capital Projects		38,500		808,787
Administration	539,493	200,013	78,635	73
Total Expenditures	1,755,190	1,973,274	527,613	2,433,652
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	92,899	(178,022)	(398,133)	(90,465)
Other Financing Sources (Uses)				
Financing Obligation Proceeds	25,000	65,000		
Transfers From Other Funds	348,981	296,000	397,750	9,997
Transfers To Other Funds	(693,750)	(288,000)		
Total Other Financing Sources (Uses)	(319,769)	73,000	397,750	9,997
Net Change in Fund Balances	(226,870)	(105,022)	(383)	(80,468)
Fund Balances - Beginning	99,440	134,960	867	31,248
Fund Balances - Ending	\$ (127,430)	\$ 29,938	\$ 484	\$ (49,220)

The accompanying notes are an integral part of the financial statements.

ESTILL COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2007
(Continued)

CSEPP	911 Fees/	Non-	Total
Fund	CMRS	Major	Governmental
Fund	Fund	Funds	Funds
\$	\$	\$	\$ 1,154,943
			13,896
			47,892
			13,080
238,303		39,648	3,743,410
	82,727	3,600	966,408
11,010			540,522
		83	11,228
249,313	82,727	43,331	6,491,379
		6,000	579,821
273,230	25,000	4,808	1,392,588
		2,699	1,383,622
			193,316
		4,492	5,242
		7,449	1,623,296
			170,021
			847,287
49,809		65	868,088
323,039	25,000	25,513	7,063,281
(73,726)	57,727	17,818	(571,902)
			90,000
			1,052,728
	(45,906)	(25,072)	(1,052,728)
	(45,906)	(25,072)	90,000
(73,726)	11,821	(7,254)	(481,902)
245,654	27,465	29,489	569,123
\$ 171,928	\$ 39,286	\$ 22,235	\$ 87,221

The accompanying notes are an integral part of the financial statements.

ESTILL COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

ESTILL COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

Reconciliation to the Statement of Activities:			
Net Change in Fund Balances - Total Governmental Funds			\$ (481,902)
Amounts reported for governmental activities in the Statement of			
Activities are different because Governmental Funds report			
capital outlays as expenditures. However, in the Statement of			
Activities the cost of those assets are allocated over their			
estimated useful lives and reported as depreciation expense.			
Capital Outlay			1,014,495
Construction in Progress			2,123,210
Depreciation Expense			(317,513)
The issuance of long-term debt (e.g. bonds, financing obligations) provides			
current financial resources to governmental funds, while repayment of principal			
on long-term debt consumes the current financial resources of Governmental			
Funds. These transactions, however, have no effect on net assets.			
Financing Obligation Proceeds			(90,000)
Financing Obligations Principal Amount			216,071
Bond Payments			8,214
Change in Net Assets of Governmental Activities			\$ 2,472,575

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

ESTILL COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2007

ESTILL COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2007

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 1,307
Total Current Assets	<u>1,307</u>
Net Assets	
Unrestricted	1,307
Total Net Assets	<u><u>\$ 1,307</u></u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

ESTILL COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

ESTILL COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 1,943
Total Operating Revenues	<u>1,943</u>
Operating Expenses	
Recreational	<u>1,875</u>
Total Operating Expenses	<u>1,875</u>
Operating Income (Loss)	<u>68</u>
Change In Net Assets	68
Total Net Assets - Beginning	<u>1,239</u>
Total Net Assets - Ending	<u><u>\$ 1,307</u></u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

ESTILL COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS
For The Year Ended June 30, 2007

ESTILL COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Receipts From Customers	\$ 1,943
Recreational Costs	<u>(1,875)</u>
Net Cash Provided By Operating Activities	<u>68</u>
Net Increase (Decrease) in Cash and Cash Equivalents	68
Cash and Cash Equivalents - July 1, 2006	<u>1,239</u>
Cash and Cash Equivalents - June 30, 2007	<u><u>\$ 1,307</u></u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	Jail Canteen Fund
Operating Income (Loss)	<u>\$ 68</u>
Net Cash Provided By Operating Activities	<u><u>\$ 68</u></u>

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	37
NOTE 2.	DEPOSITS AND INVESTMENTS	42
NOTE 3.	CAPITAL ASSETS	43
NOTE 4.	SHORT-TERM DEBT	44
NOTE 5.	LONG-TERM DEBT	44
NOTE 6.	RELATED PARTY TRANSACTION	48
NOTE 7.	EMPLOYEE RETIREMENT SYSTEM.....	48
NOTE 8.	DEFERRED COMPENSATION	48
NOTE 9.	INSURANCE.....	49
NOTE 10.	PRIOR PERIOD ADJUSTMENTS	49
NOTE 11.	DEFICIT FUND BALANCES	49

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Estill County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

C. Estill County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Estill County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Estill County, Kentucky.

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Estill County Elected Officials (Continued)

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and enterprise funds are reported as separate columns in the financial statements.

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

State Grants Fund – The primary purpose of this fund is to account for state and federal grants. The primary source of revenue for this fund is state and federal grants. Federal guidelines require that federal grants be accounted for in a separate fund instead of commingled with other governmental operations.

Chemical Stockpile Emergency Preparedness Program (CSEPP) Fund – The primary purpose of this fund is to account for federal CSEPP grant monies, which is the only source of revenue for this fund. Estill County is part of a ten county region in Kentucky that receives federal grant monies to mitigate disasters associated with the Bluegrass Army Depot's chemical stockpile located in neighboring Madison County. The Department for Local Government and the federal government require the fiscal court to maintain these receipts and expenditures separately from the General Fund.

911/CMRS Fund – The primary purpose of this fund is to account for surcharge taxes for Commercial Mobile Radio Systems (CMRS). The state distributes CMRS monies to counties to supplement 911 operations. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

The primary government also has the following non-major funds: Local Government Economic Assistance Fund, EM Tower Fund, HB 502 Fund, Homeland Security Fund, Planning/Prep Fund, Emergency Management Fund, and CERT Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, State Grants Fund, CSEPP Fund, 911/CMRS Fund, EM Tower Fund, HB 502 Fund, Homeland Security Fund, Planning/Prep Fund, Emergency Management Fund, and CERT Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets (Continued)

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 10,000	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	5-10
Infrastructure	\$ 10,000	10-50

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Note 2. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution's failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk but rather follows the requirements for KRS 41.240(4). As of June 30, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 660,000	\$	\$	\$ 660,000
Construction In Progress		2,123,210		2,123,210
Total Capital Assets Not Being Depreciated	660,000	2,123,210		2,783,210
Capital Assets, Being Depreciated:				
Buildings	1,671,996			1,671,996
Equipment	1,566,003	514,376		2,080,379
Vehicles	1,170,348	7,700		1,178,048
Infrastructure	561,920	492,419		1,054,339
Total Capital Assets Being Depreciated	4,970,267	1,014,495		5,984,762
Less Accumulated Depreciation For:				
Buildings	(511,817)	(40,295)		(552,112)
Equipment	(652,423)	(155,507)		(807,930)
Vehicles	(389,572)	(68,767)		(458,339)
Infrastructure	(48,274)	(52,944)		(101,218)
Total Accumulated Depreciation	(1,602,086)	(317,513)		(1,919,599)
Total Capital Assets, Being Depreciated, Net	3,368,181	696,982		4,065,163
Government Activities Capital Assets, Net	\$ 4,028,181	\$ 2,820,192	\$ 0	\$ 6,848,373

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 60,561
Protection to Persons and Property	149,273
General Health and Sanitation	1,600
Social Services	1,600
Roads, Including Depreciation of General Infrastructure Assets	104,479
Total Depreciation Expense - Governmental Activities	<u>\$ 317,513</u>

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 4. Short-term Debt

A. On January 1, 2007, Estill County entered into a short term borrowing agreement with The Bank of New York to finance the purchase of a truck for the road department. The agreement principal totaled \$90,000, with an additional \$2,145 of fees and interest due June 20, 2007. The county paid off this loan on June 22, 2007. No principal balance was due as of June 30, 2007.

B. On May 9, 2007, Estill County entered into a short-term promissory note with BB&T bank in the amount of \$150,021 for operating expenses. The note requires monthly payments of \$13,008 to be paid in full on May 9, 2008. The principal balance of this note was \$137,950 as of June 30, 2007.

C. On November 21, 2006, Estill County entered into a short term borrowing agreement with Citizens Guaranty Bank in the amount of \$250,625 for operating expenses. The agreement required one payment for the total outstanding due May 21, 2007. The county paid principal amounts totaling \$100,625, leaving a principal balance of \$150,000 as of June 30, 2007.

Changes In Short-term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Financing Obligations	\$	\$ 490,646	\$ 202,696	\$ 287,950	\$ 287,950
Short-term Liabilities	\$	\$ 490,646	\$ 202,696	\$ 287,950	\$ 287,950

Note 5. Long-term Debt

A. Refinancing Agreements

On December 31, 2004, Estill County entered into a \$260,000 lease agreement with Kentucky Association of Counties. The purpose of this lease was to retire a portion of the county's outstanding debt. As of June 30, 2007 the principal outstanding was \$182,181. Future principal and interest requirements are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
unpaid 2007	\$ 5,971	
2008	36,449	\$ 8,117
2009	37,535	6,409
2010	38,654	4,504
2011	39,805	2,545
2012	23,767	557
Totals	\$ 182,181	\$ 22,132

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 5. Long-term Debt (Continued)

A. Refinancing Agreements (Continued)

On December 31, 2004, Estill County entered into an \$825,000 lease agreement with Kentucky Association of Counties. The purpose of this lease was to retire a portion of the county's outstanding debt. As of June 30, 2007 the principal outstanding was \$723,182. Future principal and interest requirements are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
unpaid 2007	\$ 7,813	
2008	47,679	\$ 34,789
2009	49,111	32,714
2010	50,572	30,235
2011	52,081	27,643
2012	53,633	25,046
2013-2017	293,101	82,846
2018-2020	169,192	12,493
Totals	<u>\$ 723,182</u>	<u>\$ 245,766</u>

B. Tractor/Mower

On August 20, 2005, Estill County entered into a \$50,000 lease agreement with Kentucky Association of Counties. The purpose of this lease was for the purchase of a tractor/mower. This is a five-year lease, which requires annual principal payments of \$10,000 and monthly interest and fee payments. As of June 30, 2007, the principal outstanding was \$40,000. Future principal and interest requirements are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2008	\$ 10,000	\$ 1,678
2009	10,000	1,256
2010	10,000	756
2011	10,000	60
Totals	<u>\$ 40,000</u>	<u>\$ 3,750</u>

C. Building and Land (West Care)

On February 28, 2006, Estill County entered into an \$85,000 lease agreement with Kentucky Association of Counties. The purpose of this lease was for the purchase of a building and land. This is a six-year lease, which requires annual principal payments and monthly interest and fee payments. As of June 30, 2007, the principal outstanding was \$70,000. Future principal and interest requirements are as follows:

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 5. Long-term Debt (Continued)

C. Building and Land (West Care) (Continued)

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2008	\$ 15,000	\$ 2,915
2009	15,000	2,288
2010	15,000	1,537
2011	15,000	786
2012	10,000	61
Totals	<u>\$ 70,000</u>	<u>\$ 7,587</u>

D. Case Backhoe

On June 29, 2006, Estill County entered into a five-year lease for \$67,149 with Citizens Guaranty Bank. The purpose of this lease was for the purchase of a Case backhoe. This is a five-year lease, which requires annual principal and interest payments. As of June 30, 2007, the principal outstanding was \$52,504. Future principal and interest requirements are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2008	\$ 12,034	\$ 3,061
2009	12,729	2,366
2010	13,478	1,617
2011	14,263	831
Totals	<u>\$ 52,504</u>	<u>\$ 7,875</u>

E. 911 Upgrade

On June 29, 2006, Estill County entered into a five-year lease for \$115,419 with Citizens Guaranty Bank. The purpose of this lease was for upgrading the county's 911 system. This is a five-year lease, which requires monthly principal and interest payments. As of June 30, 2007, the principal outstanding was \$96,613. Future principal and interest requirements are as follows:

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 5. Long-term Debt (Continued)

E. 911 Upgrade (Continued)

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2008	\$ 21,574	\$ 5,076
2009	22,878	3,771
2010	24,249	2,401
2011	25,701	949
2012	2,211	10
Totals	<u>\$ 96,613</u>	<u>\$ 12,207</u>

F. Long Term Participation Agreement

The Kentucky Local Correctional Facilities Construction Authority (KLCFCA), an independent corporation agency and instrumentality of Kentucky, issued revenue bonds in the amount of \$206,362 for the purpose of constructing a jail facility. On April 1, 1987, the fiscal court subsequently entered into a lease and participation agreement with KLCFCA for \$206,362 principal plus interest on the issue. The principal amount outstanding as of June 30, 2007 was \$87,523. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2008	\$ 8,735	\$ 5,549
2009	9,289	4,995
2010	9,878	4,406
2011	10,505	3,780
2012	11,171	3,114
2013-2015	37,945	4,910
Totals	<u>\$ 87,523</u>	<u>\$ 26,754</u>

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 5. Long-term Debt (Continued)

G. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Revenue Bonds	\$ 95,737	\$	\$ 8,214	\$ 87,523	\$ 8,735
Financing Obligations	1,290,551		126,071	1,164,480	156,520
Governmental Activities					
Long-term Liabilities	<u>\$ 1,386,288</u>	<u>\$</u>	<u>\$ 134,285</u>	<u>\$ 1,252,003</u>	<u>\$ 165,255</u>

Note 6. Related Party Transaction

The county purchased veterinary supplies such as euthansol shots from Mountain View Veterinary Services for animal control activities at the dog pound. The county Judge/Executive's nephew owns Mountain View Veterinary Services, which received \$2,128 from the General Fund and \$1,380 from the LGEA Fund, for a total of \$3,508 during fiscal year 2007.

Note 7. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.19 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 8. Deferred Compensation

On February 24, 2000, the Estill County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 8. Deferred Compensation (Continued)

These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 9. Insurance

For the fiscal year ended June 30, 2007, Estill County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 10. Prior Period Adjustments - Governmental Activities

The prior year net assets beginning balance was decreased by \$119,800 due to prior year construction in process and increased by \$48,556 due to prior period depreciation errors. These adjustments resulted in a net total decrease in prior year net assets of \$71,244, resulting in a restated net asset beginning balance of \$3,211,016.

Note 11. Deficit Fund Balances

The General Fund and State Grants Fund had fund balance deficits resulting from short-term borrowing by the fiscal court to meet operating needs.

THIS PAGE LEFT BLANK INTENTIONALLY

ESTILL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007

ESTILL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 1,035,741	\$ 1,037,658	\$ 1,118,456	\$ 80,798
In Lieu Tax Payments			6,488	6,488
Excess Fees	40,100	40,100	47,892	7,792
Licenses and Permits	21,350	21,350	13,080	(8,270)
Intergovernmental Revenue	107,675	107,724	76,668	(31,056)
Charges for Services	279,010	281,826	222,136	(59,690)
Miscellaneous	198,075	379,544	352,450	(27,094)
Interest	160	10,934	10,919	(15)
Total Revenues	<u>\$ 1,682,111</u>	<u>\$ 1,879,136</u>	<u>\$ 1,848,089</u>	<u>\$ (31,047)</u>
EXPENDITURES				
General Government	419,134	608,925	573,821	35,104
Protection to Persons and Property	371,710	398,164	365,806	32,358
General Health and Sanitation	107,100	71,485	58,921	12,564
Social Services	159,600	188,161	179,316	8,845
Recreation and Culture		1,000	750	250
Debt Service	52,000	150,799	149,779	1,020
Capital Projects	236,652	7,662		7,662
Administration	350,915	857,355	539,493	317,862
Total Expenditures	<u>\$ 1,697,111</u>	<u>\$ 2,283,551</u>	<u>\$ 1,867,886</u>	<u>\$ 415,665</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(15,000)</u>	<u>(404,415)</u>	<u>(19,797)</u>	<u>384,618</u>
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds		305,000	295,646	(9,354)
Transfers From Other Funds	218,115	218,115	348,981	130,866
Transfers To Other Funds	(218,115)	(218,115)	(693,750)	(475,635)
Total Other Financing Sources (Uses)	<u>\$ 0</u>	<u>\$ 305,000</u>	<u>\$ (49,123)</u>	<u>\$ (354,123)</u>
Net Changes in Fund Balance	(15,000)	(99,415)	(68,920)	30,495
Fund Balance - Beginning	15,000	99,415	99,440	25
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 30,520</u>	<u>\$ 30,520</u>

ESTILL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
In Lieu Tax Payments	\$ 5,000	\$ 7,408	\$ 7,408	\$
Intergovernmental Revenue	985,928	1,362,572	1,014,160	(348,412)
Charges for Services	918,115	918,115	650,000	(268,115)
Miscellaneous	50,000	78,339	123,487	45,148
Interest	300	300	197	(103)
Total Revenues	<u>\$ 1,959,343</u>	<u>\$ 2,366,733</u>	<u>\$ 1,795,252</u>	<u>\$ (571,481)</u>
EXPENDITURES				
Roads	\$ 1,371,725	\$ 1,854,207	\$ 1,615,847	\$ 238,360
Debt Service	132,500	142,500	118,914	23,586
Capital Projects	240,000	229,600	38,500	191,100
Administration	165,003	272,271	200,013	72,258
Total Expenditures	<u>\$ 1,909,228</u>	<u>\$ 2,498,578</u>	<u>\$ 1,973,274</u>	<u>\$ 525,304</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>50,115</u>	<u>(131,845)</u>	<u>(178,022)</u>	<u>(46,177)</u>
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds		65,000	65,000	
Transfers From Other Funds	150,000	150,000	296,000	146,000
Transfers To Other Funds	<u>(218,115)</u>	<u>(218,115)</u>	<u>(288,000)</u>	<u>(69,885)</u>
Total Other Financing Sources (Uses)	<u>(68,115)</u>	<u>(3,115)</u>	<u>73,000</u>	<u>76,115</u>
Net Changes in Fund Balance	(18,000)	(134,960)	(105,022)	29,938
Fund Balance - Beginning	<u>18,000</u>	<u>134,960</u>	<u>134,960</u>	<u>0</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 29,938</u>	<u>\$ 29,938</u>

ESTILL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 106,700	\$ 129,795	\$ 117,882	\$ (11,913)
Charges for Services	23,750	23,750	6,964	(16,786)
Miscellaneous	6,300	6,300	4,605	(1,695)
Interest	100	100	29	(71)
Total Revenues	\$ 136,850	\$ 159,945	\$ 129,480	\$ (30,465)
EXPENDITURES				
Protection to Persons and Property	\$ 355,200	\$ 393,975	\$ 434,954	\$ (40,979)
Debt Service	15,650	14,125	14,024	101
Administration	98,267	84,112	78,635	5,477
Total Expenditures	\$ 469,117	\$ 492,212	\$ 527,613	\$ (35,401)
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(332,267)	(332,267)	(398,133)	(65,866)
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	327,267	327,267	397,750	70,483
Transfers To Other Funds				
Total Other Financing Sources (Uses)	327,267	327,267	397,750	70,483
Net Changes in Fund Balance	(5,000)	(5,000)	(383)	4,617
Fund Balance - Beginning	5,000	5,000	867	4,133
Fund Balance - Ending	\$ 0	\$ 0	\$ 484	\$ 8,750

ESTILL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007
(Continued)

	State Grants Fund			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$	\$ 36,487	\$ 36,487	\$
Intergovernmental Revenues	3,320,000	3,333,880	2,256,749	(1,077,131)
Charges for Services	0	981	981	0
Miscellaneous		38,286	48,970	10,684
Total Revenues	<u>\$ 3,320,000</u>	<u>\$ 3,409,634</u>	<u>\$ 2,343,187</u>	<u>\$ (1,066,447)</u>
EXPENDITURES				
Protection to Persons and Property	\$ 10,000	\$ 51,400	\$ 288,790	\$ (237,390)
General Health and Sanitation	1,900,000	1,885,000	1,322,002	562,998
Social Services		14,000	14,000	
Recreation and Culture	125,000	125,000	-	125,000
Capital Projects	1,300,000	1,309,960	808,787	501,173
Administration		185,523	73	185,450
Total Expenditures	<u>\$ 3,335,000</u>	<u>\$ 3,570,882</u>	<u>\$ 2,433,652</u>	<u>\$ 1,137,230</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(15,000)</u>	<u>(161,248)</u>	<u>(90,465)</u>	<u>70,783</u>
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds	\$	\$ 130,000	\$ 130,000	\$
Transfers From Other Funds			9,997	(9,997)
Transfers To Other Funds				
Total Other Financing Sources (Uses)	<u>\$ 0</u>	<u>\$ 130,000</u>	<u>\$ 139,997</u>	<u>\$ (9,997)</u>
Net Changes in Fund Balances	(15,000)	(31,248)	49,532	60,786
Fund Balances - Beginning	15,000	31,248	31,248	
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 80,780</u>	<u>\$ 60,786</u>

ESTILL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007
(Continued)

	CSEPP Fund			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenues	\$ 300,000	\$ 300,000	\$ 238,303	\$ (61,697)
Miscellaneous		11,010	11,010	
Total Revenues	<u>\$ 300,000</u>	<u>\$ 311,010</u>	<u>\$ 249,313</u>	<u>\$ (61,697)</u>
EXPENDITURES				
Protection to Persons and Property	\$ 267,618	\$ 418,718	\$ 273,230	\$ 145,488
Social Services	3,050	3,050		3,050
Administration	29,332	134,896	49,809	85,087
Total Expenditures	<u>\$ 300,000</u>	<u>\$ 556,664</u>	<u>\$ 323,039</u>	<u>\$ 233,625</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)		<u>(245,654)</u>	<u>(73,726)</u>	<u>171,928</u>
Net Changes in Fund Balances		(245,654)	(73,726)	171,928
Fund Balances - Beginning		<u>245,654</u>	<u>245,654</u>	
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 171,928</u>	<u>\$ 171,928</u>

ESTILL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007
(Continued)

911/CMRS Fund				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Charges for Services	\$ 42,100	\$ 42,100	\$ 82,727	\$ 40,627
Total Revenues	\$ 42,100	\$ 42,100	\$ 82,727	\$ 40,627
EXPENDITURES				
Protection to Persons and Property	\$ 42,000	\$ 69,465	\$ 25,000	\$ 44,465
Administration	100	100		100
Total Expenditures	\$ 42,100	\$ 69,565	\$ 25,000	\$ 44,565
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)		(27,465)	57,727	85,192
OTHER FINANCING SOURCES (USES)				
Transfers Out to Other Funds	(15,000)		(45,906)	(45,906)
Total Other Financing Sources (Uses)	(15,000)		(45,906)	(45,906)
Net Changes in Fund Balances	(15,000)	(27,465)	11,821	39,286
Fund Balances - Beginning	15,000	27,465	27,465	
Fund Balances - Ending	\$ 0	\$ 0	\$ 39,286	\$ 39,286

ESTILL COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2007

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Reconciliation - General Fund

Fund Balance - Budgetary Basis	\$ 30,520
Less: Short-term Debt Proceeds	(270,646)
Plus: Payments	112,696
Fund Balance - Modified Cash Basis	<u><u>\$ (127,430)</u></u>

Reconciliation - State Grants Fund

Fund Balance - Budgetary Basis	\$ 80,780
Less: Short-term Debt Proceeds	(130,000)
Fund Balance - Modified Cash Basis	<u><u>\$ (49,220)</u></u>

THIS PAGE LEFT BLANK INTENTIONALLY

**ESTILL COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2007

ESTILL COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2007

	LGEA Fund	EM Tower Fund	HB 502 Fund	Homeland Security Fund
ASSETS				
Cash and Cash Equivalents	\$ 46	\$ 10,570	\$	\$ 78
Total Assets	<u>46</u>	<u>10,570</u>	<u></u>	<u>78</u>
FUND BALANCES				
Unreserved:				
Special Revenue Funds	<u>46</u>	<u>10,570</u>	<u></u>	<u>78</u>
Total Fund Balances	<u>\$ 46</u>	<u>\$ 10,570</u>	<u>\$</u>	<u>\$ 78</u>

The accompanying notes are an integral part of the financial statements.

ESTILL COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
June 30, 2007
(Continued)

Planning/ Prep Fund	Emergency Management Fund	CERT Fund	Total Non-Major Governmental Funds
<u>\$ 2,500</u>	<u>\$ 3,291</u>	<u>\$ 5,750</u>	<u>\$ 22,235</u>
<u>2,500</u>	<u>3,291</u>	<u>5,750</u>	<u>22,235</u>
<u>2,500</u>	<u>3,291</u>	<u>5,750</u>	<u>22,235</u>
<u>\$ 2,500</u>	<u>\$ 3,291</u>	<u>\$ 5,750</u>	<u>\$ 22,235</u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

ESTILL COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2007

ESTILL COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2007

	LGEA Fund	EM Tower Fund	HB 502 Fund	Homeland Security Fund
REVENUES				
Intergovernmental	\$ 24,565	\$	\$	\$
Charges for Services		3,600		
Interest	10	36	37	
Total Revenues	<u>24,575</u>	<u>3,636</u>	<u>37</u>	
EXPENDITURES				
General Government	6,000			
Protection to Persons and Property	4,399	409		
General Health & Sanitation	2,699			
Recreation and Culture	4,492			
Roads	7,449			
Administration	60			5
Total Expenditures	<u>25,099</u>	<u>409</u>		<u>5</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(524)</u>	<u>3,227</u>	<u>37</u>	<u>(5)</u>
Other Financing Sources (Uses)				
Transfers to Other Funds			(9,997)	
Total Other Financing Sources (Uses)			<u>(9,997)</u>	
Net Change in Fund Balances	(524)	3,227	(9,960)	(5)
Fund Balances - Beginning	570	7,343	9,960	83
Fund Balances - Ending	<u>\$ 46</u>	<u>\$ 10,570</u>	<u>\$ 0</u>	<u>\$ 78</u>

The accompanying notes are an integral part of the financial statements.

ESTILL COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2007
(Continued)

Planning/ Prep Fund	Emergency Management Fund	CERT Fund	Total Non-Major Governmental Funds
\$	\$ 15,083	\$	\$ 39,648
			3,600
			83
	15,083		43,331
			6,000
			4,808
			2,699
			4,492
			7,449
			65
			25,513
	15,083		17,818
	(15,075)		(25,072)
	(15,075)		(25,072)
	8		(7,254)
2,500	3,283	5,750	29,489
\$ 2,500	\$ 3,291	\$ 5,750	\$ 22,235

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

ESTILL COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

ESTILL COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2007

Federal Grantor			
Program Title	Federal		
<u>Grant Name</u>	<u>CFDA #</u>	<u>Grant Number</u>	<u>Expenditures</u>
U.S. Department of Transportation			
<i>Passed through KY Transportation Cabinet</i>			
Highway Planning and Construction			
Transportation Equity Act for the 21st Century (TEA-21)			
Courthouse Renovation Grant	20.205	C-05331120	\$ 482,779
U.S Department of Homeland Security			
<i>Passed through KY Office of Homeland Security and</i>			
<i>KY Department of Military Affairs</i>			
Chemical Stockpile Emergency Preparedness Program	97.040	PON2 06000000815	323,039
Homeland Security Grant Program -			
Assistance to Firefighters Grant	97.004	EM W-2006-FG-05420	237,500
Homeland Security Grant Program -			
911 Systems Grant	97.067	n/a	40,062
Disaster Grants - Public Assistance	97.036	n/a	15,083
Total U.S. Department of Homeland Security			615,684
U.S. Department of Agriculture			
Cooperative Forestry Assistance -			
Fire Wise Grant	10.664	n/a	40,605
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 1,139,068

ESTILL COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2007

Note 1 - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Estill County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Wallace Taylor, Estill County Judge/Executive
Members of the Estill County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Estill County, Kentucky as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements and have issued our report thereon dated September 25, 2008. Estill County prepares its financial statements in accordance with the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Estill County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Estill County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Estill County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting: 2007-5.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Estill County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and are included in the accompanying schedule of findings and questioned costs as items 2007-1, 2007-2, 2007-3, and 2007-4.

Estill County's responses to the findings identified in our audit are included in the accompanying schedule of findings and questioned costs. We did not audit the officials' responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

September 25, 2008

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Wallace Taylor, Estill County Judge/Executive
Members of the Estill County Fiscal Court

Report on Compliance With Requirements
Applicable To Each Major Program And On Internal
Control Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Estill County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. Estill County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Estill County's management. Our responsibility is to express an opinion on Estill County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Estill County's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Estill County's compliance with those requirements.

In our opinion, Estill County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007. However, the results of our auditing procedures disclosed one instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2007-06.

Internal Control Over Compliance

The management of Estill County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Estill County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Estill County's internal control over compliance.



Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance (Continued)

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that a noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Estill County's response to the finding identified in our audit is included in the accompanying schedule of findings and questioned costs. We did not audit the response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

September 25, 2008

ESTILL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2007

ESTILL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Fiscal Year Ended June 30, 2007

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of Estill County, Kentucky.
2. One significant deficiency relating to the internal control of the audit of the financial statements is reported in the Independent Auditor's Report and is also considered to be a material weakness.
3. Four instances of noncompliance material to the financial statements of Estill County were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Estill County expresses an unqualified opinion.
6. There is one audit finding relative to the major federal awards programs for Estill County reported in Part C of this schedule.
7. The programs tested as major programs were: Highway Planning and Construction (CFDA #20.205), Chemical Stockpile Emergency Preparedness Program (CFDA #97.040), and Homeland Security Grant Program (CFDA #97.004)
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Estill County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

STATE LAWS AND REGULATIONS (Continued)

2007-1 The Fiscal Court Did Not Properly Approve \$1,107,776 Of Expenditures Relating To The Waterline Extension Project

The fiscal court did not properly approve eleven expenditures totaling \$1,107,776 for the Waterline Extension Project, which was a grant from the Kentucky Infrastructure Authority (KIA). On June 19, 2006, the fiscal court approved a blanket approval for all grant expenditures in advance of the expenditure being incurred. KRS 68.275(3) states, "The fiscal court may adopt an order, to pre-approve the payment of monthly payroll and utility expenses. No other expenses shall be pre-approved pursuant to this subsection without the written consent of the State Local Finance Officer..." Also, KRS 68.275 (2) requires the county judge/executive to present all claims to fiscal court for review prior to payment. We recommend grant expenditures be monitored closely to ensure compliance with laws, regulations, and terms of the grant agreements and Fiscal Court review and approve all expenditures prior to payment.

County Judge/Executive's Response: Will monitor more closely

ESTILL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2007
(Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

STATE LAWS AND REGULATIONS (Continued)

2007-2 The Fiscal Court Did Not Account For Encumbrances And Unpaid Obligations

The fiscal court did not report \$120,847 of encumbrances on the fourth quarter financial statement provided to the Department for Local Government (DLG). Invoices from July-September 2007 were reviewed to determine the amount the county encumbered as liabilities for fiscal year ended June 30, 2007. The General Fund had encumbrances of \$24,763, the Road Fund had encumbrances of \$66,561, the Jail Fund had encumbrances of \$2,128, the CSEPP fund had \$119 of encumbrances, and the State Grants Fund had \$27,276 of encumbrances. The county did not have the available cash balance to pay the encumbrances and unpaid obligations noted for the Road Fund and the Jail Fund. We recommend the county report all encumbrances by including all outstanding liabilities at the end of the fiscal year on the fourth quarter financial statement. They should maintain a list of these encumbrances and the fiscal court should not encumber more than the available cash balance in each fund.

County Judge/Executive's Response: Was unaware of this; will implement internal controls for better control.

County Treasurer's Response: Fiscal Court uses Manual PO system. A list will be maintained at the close of FY.

2007-3 The Fiscal Court Did Not Remit Insurance Premium Payments Timely And Incurred \$5,518 In Late Charges

The Fiscal Court did not pay for liability insurance coverage timely and incurred \$5,518 of late charges for the fiscal year ended June 30, 2007. The County should pay their liability coverage timely to ensure the county's assets are insured and to avoid unnecessary late charges. KRS 65.140(2) requires expenditures to be paid in full within 30 working days of receiving vendor invoices. A lapse in insurance coverage could leave the county vulnerable to loss. We recommend the fiscal court ensure insurance premiums are paid in a timely manner.

County Judge/Executive's Response: We are striving to offset these expenses

County Treasurer's Response: Cash flow problem. We do not make it a habit incurring late fees.

2007-4 The Fiscal Court Did Not Approve A Salary Schedule

A salary schedule for all county employees was not presented to the Fiscal Court for approval. KRS 64.530 says, "The fiscal court of each county shall fix the compensation of every county officer and employee." We recommend the Fiscal Court approve a salary schedule.

County Judge/Executive's Response: We are correcting

County Treasurer's Response: Road Salary Schedule adopted. Recommendation noted and will prepare schedule for all county officers and employees, pre KRS 64.350

ESTILL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2007
(Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS

2007-5 The Fiscal Court Lacks Adequate Segregation Of Duties For Occupational Tax Collections

The Fiscal Court lacks adequate segregation of duties for occupational tax collections. One individual is responsible for receiving, depositing, posting, and reconciling all occupational tax receipts. By delegating all of these functions to one individual, the county is increasing the risk that material misstatements or errors will occur and go undetected. Occupational tax receipts account for 27% of general fund receipts. We recommend the county separate the functions of receiving, depositing, and posting occupational tax receipts to at least two separate individuals.

County Judge/Executive's Response: We are currently looking at different ways to due this.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

2007-6 Federal Grant Monies Totaling \$9,952 Paid To The County's CSEPP Coordinator Are Being Questioned

Estill County is part of a ten county region in Kentucky that receives federal grant monies to mitigate disasters associated with the Bluegrass Army Depot's chemical stockpile located in neighboring Madison County. These funds originated in the U. S. Department for Homeland Security (CFDA #97.040), passed through the Kentucky Department of Military Affairs and were earmarked for Chemical Stockpile Emergency Preparedness Program (CSEPP) expenditures. The county paid the CSEPP coordinator \$11,136, of which \$9,952 was reimbursed with federal CSEPP monies, in order for him to buy back retirement service credit from the County Employees Retirement System for time the coordinator worked in 1981. The CSEPP program did not begin until 1985. The county's CSEPP coordinator stated that part of his employment agreement to return to work for the county was the grant would purchase service time on his behalf. According to the county, this expenditure was approved by the Kentucky CSEPP director, the FEMA regional director, and FEMA headquarters through the budget process.

OMB Circular A-87 states to be allowable under Federal awards, costs must be necessary and reasonable for proper and efficient performance and administration of the Federal award..." and the *Guidance for Preparing and Managing the Chemical Stockpile Emergency Preparedness Program (CSEPP)* states, "The funds for the grant/cooperative agreement shall only be used to cover allowable costs which are incurred during the agreement period." Further state law requires all claims of the fiscal court should be reviewed and approved prior to payment.

We question the cost of \$9,952 because it is not a necessary and reasonable expenditure of the program, the cost was not incurred during the period of agreement and the claim was not approved or presented to fiscal court prior to payment. Neither the state nor the county could provide us with a copy of a written agreement for retirement reimbursement approved by FEMA.

ESTILL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2007
(Continued)

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM
 AUDIT (Continued)

2007-6 Federal Grant Monies Totaling \$9,952 Paid To The County's CSEPP Coordinator Are Being
 Questioned (Continued)

We recommend the fiscal court stay within the guidelines set forth by a grant agreement, review and approve all expenditures prior to payment and seek guidance from the Internal Revenue Service (IRS), Revenue Cabinet and Social Security Administration on the appropriate way to report this income to those agencies. This matter will be referred to U.S Department for Homeland Security, Kentucky Department of Military Affairs, Internal Revenue Service, Kentucky Revenue Cabinet and Social Security Administration for further review.

County Judge/Executive's Response: I was under the impression we where within grant guidelines, by being approved by CSEPP.

County Treasurer's Response: The written agreement for retirement reimbursement was reviewed during the 06 budget presented by the Estill County CSEPP Director. Approval of reimbursement per line item 06-KY-EST-000194 in the amount of \$13,300 was reviewed by the DHS Region IV and HX representative, US Army representative and the BGAD representative present at the budget negotiations held at General Butler State Park during June 6-9, 2005. Final CSEP budget was reviewed by and approved by the Kentucky Emergency Management Director and submitted to FEMA Headquarters staff in Washington where final approval was made.

Excerpt from e-mail: April 01, 200 from Thomas Warnock, Program Specialist to: Terry Madden, Cc: John Simpson

Per discussion with my management, FEMA HQ does not intend to seek return of the funds in question, If the state as the grantee chooses to recover the funds from Estill County, the funds may be used for ANY CSEP-related purpose within the original scope. Since the period of availability for reallocation for FY 06 funds have passed, the funds cannot be reallocated outside the original scope.

Corrected Action Plan from the CSEP Program Supervisor forwarded a copy of the Commonwealth of Kentucky 07 DMA -81 findings to FEMA Region IV and in turn they forwarded the Headquarters FEMA for legal review and guidance. The questionable cost was to be discussed at the April 17, 2008 IPT meeting with all parties involved. As of May 5, 2008 no documentation has been received from FEMA Headquarters concerning the final decision.

The questioned cost was reviewed and approved by all Departments mentioned above. The transaction was by no means handled in an illicit manner by the Estill County CSEP Director, or the Estill County Fiscal.

The line item was approved at the state and federal level per 1801 reimbursement form.

All aforementioned documents were copied and given to auditor on May 6, 2008.

D. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

None

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

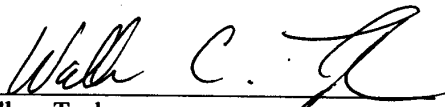
ESTILL COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2007**


CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
ESTILL COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2007

The Estill County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Wallace Taylor
Estill County Judge/Executive



Laura Ann Rogers
Estill County Treasurer

